COMPARATIVE PERFORMANCE ANALYSIS OF LIC AND HDFC LIFE INSURANCE COMPANY BASED ON CARAMEL MODEL

Synopsis

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INTRODUCTION

'Life without insurance is meaningless', this is not a saying but an opinion which should reach each individual to help him face the unforeseen risks and uncertainties attached with his life every now and then. The risk is not always about the life threatening incidents but also includes the financial risks or losses which can be posed in front of anyone at any point of time. To face these times, the awareness level among people plays a crucial role to give a certain level of security which takes them towards the investment options to get themselves insured for future. With the idea of giving protection and security to the people, insurance sector has been emerged.

Talking about Insurance Sector, the first name which comes in the mind of every Indian is LIC (Life Insurance Corporation of India). LIC, India's largest and one & only public sector Insurance Company with a huge market capitalization. It is the fifth most valued company of India and the most valued Insurance Corporation of India. Even after capturing of large part of the market by Private Insurers, LIC remained at the top among all insurers. In the beginning period, after liberalisation, LIC retained its dominant position in the Life Insurance Sector. However, gradually Private Insurers like HDFC Life, ICICI Prudential Life and Birla Sun Life Insurance established in the first batch of new entrants in Private Sector of Life Insurance. The annual accounts are important for performance analysis of both the companies. The Comparative Performance Analysis of LIC and HDFC will help in knowing the consistency of being the leading Public and Private Insurance Companies of India.

HISTORY OF LIC

The modern form of the Life Insurance came to India in 1818 from England. The first company of Life Insurance was established in Calcutta by Europeans named- Oriental Life Insurance Company, focusing only on Europeans and neglecting Indians. Later on, Indian people were also able to get themselves insured by these foreign companies with the efforts of people like Babu Muttylal Seal, but still very high premiums were charged from Indians. Many years passed, then in 1870 first Indian Life Insurance Company came into existence – Bombay Mutual Life Assurance Society. Meanwhile many companies were established in India but India had no regulatory body to govern these insurance companies. Hence in the year 1912, Life Insurance Companies Act, 1912 was passed. The Insurance Act 1938 governed the life as well as general insurances. The Parliament of India passed the Life Insurance Corporation of India Act on 1 September 1956, with the aim of providing insurance and connecting to people widely with the special attention towards rural areas and socially and economically backward classes giving the risk coverage against deaths at a reasonable cost. This is one the important aspect of LIC making it nationwide the largest Life Insurance Company.

HISTORY OF HDFC LIFE INSURANCE COMPANY LIMITED

HDFC Life Insurance Company Ltd. is a Joint Venture between HDFC Ltd., a Global Investment Company – Standard Life Aberdeen and one of the leading Housing Finance Institution of India. HDFC Ltd. was incorporated in October 1977 and commenced its business on 3 December 1977 but got the Registration Certificate dated 31 July 2001. So, HDFC Life Insurance Company Limited, one of the leading Private Insurers established in the year 2000 marking the position of being 1st Private Insurance Company. It has captured the Life Insurance market nationwide offering various individual and group insurance schemes for long term life insurance. The schemes meet

the varied customers' needs of savings, risk coverage and protection along with investment, health and annuity plans.

PERFORMANCE ANALYSIS OF LIC AND HDFC LIFE- CARAMEL MODEL

World Bank and IMF recommended this model for evaluating the financial performance of Insurance Corporations, in the handbook of Financial Sector Assessment. This model is also used for Reinsurance companies. It is similar to the CAMEL Framework designed for banking sector. CARAMEL Model was found as a more comprehensive model as it covers the two important aspects namely- Management soundness and Reinsurance & Actuarial Issues. The problem of evaluating the financial performance of Insurance Corporation was solved with the help of this model.

IMF has mentioned in its Compilation Guide about the financial soundness indicators separately for various Financial Corporations which includes Insurance Corporations also among them. It has specified various ratios to be computed for Life Insurance, Non-life Insurance or both. Insurance follows the Theory of Probability as the insurance premium is estimated and set before knowing the claim amount to be paid or can be said cost of policy. The Insurance Corporations mainly involves two types of risk:-

- Technical Risks: - These risks are in the nature of insurance business. If not managed adequately, it may result in both liquidity and solvency problems. The risk management includes the correct projection of premiums and claims using the actuarial techniques.
- Investment Risks: - These risks arise due to change in interest rates, asset prices, etc. Investment risks affect the performance, return, liquidity, etc., of Insurance Corporations.

The Financial Soundness Indicators (FSI) are computed for Capital Adequacy (one of the key FSI), Return on Equity, Return on Assets, Liquidity, etc. The CARAMEL Model expands as: -

C- CAPITAL ADEQUACY

A- ASSET QUALITY

RA- REINSURANCE AND ACTUARIAL ISSUES

M- MANAGEMENT SOUNDNESS

E- EARNING AND PROFITABILITY

L- LIQUIDITY OF COMPANY

The brief description for each is as follows:-

1. Capital Adequacy - Capital is an important and basic requirement of any company. For a sound financial system of any insurance company, capital need to be adequate enough to protect the insured and settle their claims. It is considered as the key indicator of financial soundness. Ratios like Capital to Total Asset and other solvency ratios are computed for checking the capital adequacy of the company. Minimum solvency margin as per IRDA is 1.5 times (excess of assets over liabilities).
2. Asset Quality – This ratio also plays a crucial role in evaluating the financial soundness of any insurance company. Lower ratio indicates that less amount of provisions hold for less Non-Performing Assets (NPAs) and so is considered better than higher asset quality ratio.
3. Reinsurance and Actuarial Issues – Life Insurance Companies do not rely on reinsurance. Therefore, there is no significant gap between Gross and Net Premium. In this Risk Retention Ratio is computed for passing the risk to reinsurance, which is negligible.

4. Management Soundness – For any financial system to be sound, soundness of management is equally important. For this Operating Expense ratio is computed.
5. Earning and Profitability – To run any insurance company, the important aspect required is its earnings and profits. Ratios like Return on Equity and Return on Assets are computed.
6. Liquidity of Company – For meeting current / short term obligations of day-to-day transactions, liquidity position of the company is an important factor to be measured. Liquidity ratios like Current ratio, Liquid ratio, are computed.

REVIEW OF LITERATURE

Patel, Kiranmayi & Pavan (2021) - Performance of Selected Life Insurance Companies-Comparative Analysis.

In this Article, CARAMEL Model is used for measuring the performance of LIC with three private insurance companies. It tells that the financial performance of the Life Insurance Companies includes the proper management of risks and a sound control system. The conclusion of the study throws light on the importance of profitability ratios and liquidity ratios as well to meet the short term obligations. Also, the investor can choose any policy from any insurance company after considering the financial performance based on the CARAMEL Model.

Lamba, Jatin Kumar (2021) – A Comparative Study of LIC's financial performance with selected competitor Insurance Companies in Indian context.

This study aimed to assess factors affecting the profitability, profits and capital gains of Indian Insurance Companies. The results show that there is no correlation between the Company's Profitability & age and the connection between profitability & size are significantly positive. The

results also show that capital volume was substantially connected with profitability and was optimistic. Undoubtedly LIC consistently performing well but its share in market has decreased after privatization of Insurance sector. Still LIC alone is holding more share than the total of all other 23 Private players in the market.

Subhanam and Nagarajan, Lalitha and Lt. Cdr. Dr. I (2019) - Performance Evaluation of Life Insurance Sector – A Comparative study of Public and Private Life Insurance Companies in India. The objective of the study was the public life insurance and private life insurance companies in India and compare the perception of customers in terms of service quality and analyse the performance. The study was based upon secondary data and that data collected from text book, national and international article, annual report of LIC. In this study researches use various ratios for comparison between public insurance and private insurance companies.

Sharma, Priyanka (2017) – Consumer behavior towards Life Insurance Products a comparative study of LIC and HDFC Life.

In this study, a comparative study of LIC and HDFC Life is being done for analyzing the consumer behavior towards their insurance products. The factors covered for the purpose of purchasing life insurance includes tax rebate, risk cover, retirement planning, return on investment and family safety. It concluded that the customer loyalty and recommendations given by them to other people of the society are also the result of level of satisfaction to the customer.

Fatima, Sumbul (2017) - Impact of the entry of private insurance companies on the performance of Life Insurance Corporation of India.

In this study an attempt is made to evaluate the growth and performance of ICICI Prudential Life Insurance Company, one of the major private sector life insurance companies through certain

parameters like net profit, net premium, number of branches, etc. Besides CARAMEL Model has been used to analyze certain ratios like capital to total assets ratio, the net premium to gross premium ratio, etc. These ratios are further statistically tested using the one-sample t-test.

Pal, Anjali (2016) – Impact of private life insurance companies on business of LIC of India.

The study revealed that LIC is a dominant market player with more than 70% of market. The performance Evaluation shows a consistent increase in its business. It shows that the performance is unchanged and LIC has maintained the Market Value of their products. After the introduction of IRDA (Insurance Regulatory & Development Authority), LIC has become more conscious for their products.

Mishra, Krishna Kant (2015) - A Comparative Study of Public and Private Life Insurance Companies in India.

It was no wonder that the re-entry of private insurance has marked a second coming for the sector. In just ten years, the sector has undergone a makeover, offering more choice, better services, quicker settlement, tighter regulation and greater awareness. The environment become more and more competitive and services and products become alike, creating a differentiation was becoming extremely tough. The researcher use exploratory research method. Secondary sources of data collection have been adopted for the study. The relevant and required data are collected from the text books, nationals and internationals articles, as well as annual reports of LIC, Statistical Handbook of Insurance and IRDA.

Sood, Tulika (2013) – A study of the relationship among Customer Perceived Service Quality and Perceived Value on Customer Satisfaction of Life Insurance Services of LIC and HDFC life in Rajasthan.

This study analysed the insurance services of 2 companies: LIC & HDFC Life and studied the relationship between the customer perceived service quality and perceived value on customer satisfaction. It showed that demographic variables are useful to understand the customers' preference and various aspects like tax saving, risk average, making black money to white, financial security, etc., impact the decision of customers for opting any policy. This study concluded that the financial security for the family and brand image / reputation of the company are the most important factors. Also, majority of the respondents opt for Term Plans of both LIC & HDFC Life.

Kumari, T.H. (2013) – Performance Evaluation of Indian Life Insurance Industry in Post Liberalization.

In this study, the financial performance was evaluated on the basis of ratios for both public and private life insurance industry. The conclusion of the study sums up that after privatizing the insurance industry, the financial performance has been increased.

Neelaveni, (2012) – Financial Performance of Life Insurance Companies and Products.

In this study, the financial performance of selected five insurance companies is examined by evaluating various plans and policies focusing on the annual growth rate. It concluded that Private insurers are performing a way better than the Life Insurance Corporation because of the cut throat competition from Private Insurance Companies.

Bajpai, Shalini (2012) – Analytical study of Capital Structure and Fund Management of LIC.

During this study it was observed that LIC holds the major market share being the only Public Sector Insurance Company. Its objective is to earn profit but taking into consideration the social

Benefits too. It has also resulted from the findings that LIC funds are invested in India and International market, both. The management of these funds is done by the respective branch office & Joint Venture Subsidies.

Charumathi, B. (2011) – On the Determinants of Profitability of Indian Life Insurers- An Empirical Study.

In the study analysed the profitability of Life Insurance Companies considering LIC and 22 Private Insurers using regression analysis. The results showed the positive effect of size & liquidity and the negative effect of rise in premium, leverage & equity capital during a 3 years period i.e. 2008-09 to 2010-11.

Syamala Rao, G. (2010) – Growth and Performance of Insurance Sector with special reference to LIC of India.

The study focused on the performance of LIC and comparison is done with some private insurers. In this study an attempt is made to examine the insurance growth for the total insurance as well as for Life insurance and Non-Life insurance for the year 2008 and share of each region in the world market in that year. It is found that European region accounted for 41% of the total insurance business in terms of premium income followed by American region with around 40% of World Market. Asia is the next dominant region with 21.86 % of World share. Asia region is largely tilted over to Life insurance business. India is the 5^{th} largest Life insurance market in Asia. By 2008-09, India's total Life insurance premium volume is increased to USD 47.13 billion, which in turn increased its share in the world 1.9% and in Asia to 7.6%. It concluded that even after end in monopoly of Public Sector Company since last 5 decades in the insurance sector, LIC still holds more than 78% market share leaving behind all the private sector insurance companies.

Chandhok, Gunita Arun (2009) – Performance analysis of LIC and ICICI Prudential.

This study analysed the performance of ICICI and LIC by focusing on their expenditures and profits earned by them by way of sales of their policies. It concluded that both companies performed well but LIC still continues to lead, not to forget mentioning about the meticulous performance of ICICI also with the increase in competition & Liberalisation of Private Sector. LIC, in the span of ten years (period of the study) did not focus more on new policies whereas ICICI maintained a steady growth in its Current Assets and constant Net Worth for fighting against rival companies.

Kurian, Jomon (2005) – An analytical study of plans and schemes of Life Insurance Corporation LIC of India.

The study covers the analysis of schemes of LIC. In this, the analysis has been done separately for Individual schemes, group schemes, social security schemes, annuity schemes and housing loan schemes.

RESEARCH GAP

LIC, the only Public sector Insurance Company in India is the largest among all the insurance companies, as proved by many researches done in this field and HDFC Life, one of the leading Private sector Insurance Company. Many studies are done focusing on the customer preferences for the various Insurance Companies, giving importance to different factors affecting the decision. The previously done researches includes the analysis of Insurance Companies and their financial performance on the basis of the profits earned and claims settled by them. The financial performance can be analysed by the CARAMEL Model, designed by World Bank and IMF

specifically for the Insurance Sector Companies. It is based on the CAMEL Model specified for the Banking sector. CARAMEL Model, can be used for evaluating the Financial Soundness of the Insurance Companies, making it an important tool for the Insurance sector, being life or non-life insurance or even reinsurance. Hence, this study will be an attempt to fill the research gap of using this model for analyzing and comparing the financial performance of LIC and HDFC Life.

NEED OF THE STUDY

With the increasing importance of Insurance Sector, it is the need of an hour to measure the Financial Performance of the Insurance companies. The consistency of being the leading Insurance Company and despite the increasing competition from the private sector, LIC still holds the huge market share. But the fact can't be ignored that the Private Insurers have also captured the large part of the Insurance Market. This gears up the need of this study – 'Comparative Performance Analysis of LIC and HDFC LIFE based on CARAMEL Model'. This study will be an effort to serve the purpose of evaluating the financial soundness through the detailed analysis using CARAMEL Model and draw the conclusions from the findings for a Public and Private sector Insurance Companies taking LIC and HDFC LIFE as the base.

SCOPE OF THE STUDY

The study will be conducted on the basis of secondary data. This will be collected from the annual reports of the companies. The study will focus on evaluating and comparing the performance of LIC and HDFC Life being the top and leading Public and Private sector Life Insurance Companies using CARAMEL Model and checking the financial soundness thereon.

OBJECTIVES OF THE STUDY

1. To analyse the working of LIC and HDFC LIFE
2. To measure the Operational Efficiency of both the Companies.
3. To analyse the financial soundness of the two Companies on the basis of CARAMEL Model.
4. To evaluate and compare the analysis done on the basis of their performances during the period of study of 5 years (2019-20 to 2023-24).

HYPOTHESIS OF THE STUDY

Hypothesis is framed to study the objectives mentioned. Following is the hypothesis designed for the present research objective:-

H_0:- There is no relation between the ratios computed for analyzing the financial performance of LIC and HDFC LIFE and their respective financial soundness.

H_1:- There is a relation between the ratios computed for analyzing the financial performance of LIC and HDFC LIFE and their financial soundness.

RESEARCH METHODOLOGY

The collection of data will be based on secondary method of gathering data. It will include the Annual Reports of the Corporations and any other factsheets as may be required for analyzing the data. The Period of study for the purpose of this research will be of 5 years i.e.2019-20 to 2023-24.

LIMITATION OF THE STUDY

1. This study will use a specific model, CARAMEL Model, for analyzing the financial performance of LIC and HDFC LIFE. Therefore, the conclusions or findings may not be same from any other model or method of evaluating the performance of these Companies.
2. The study will be for a specific span of time i.e. 5 years (2018-19 to 2022-23). Hence, the results may vary for years other than the period of this study.
3. This study will analyse the financial performance of LIC and HDFC LIFE only using the CARAMEL Model. Therefore, the results can't be generalized for all other Private Insurance Companies when compared with LIC, one and the only Public Sector Life Insurance Company.

CHAPTER SCHEME

1. Introduction
2. Review of Literature – Research Gap
3. Research Methodology
4. Profile of LIC and HDFC LIFE
5. Comparative Performance Analysis and Interpretation through CARAMEL Model
6. Conclusion, Findings and Suggestions

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